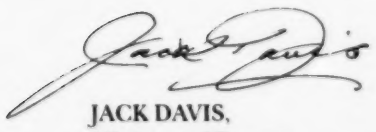
90-07070/

THE CORPORATION

The British Columbia Petroleum Corporation was established on November 8, 1973, as an agency of the Crown, under the Petroleum Corporation Act. Under the terms of an agreement between Westcoast Energy Inc. and the Corporation, effective November 1, 1973, the Corporation sells natural gas to Westcoast at a price equal to the gross revenue received by that Company on the resale thereof less that Company's cost of service, in respect of gathering, processing and transporting the gas, for the month in which such resale takes place. In addition, the Corporation sells natural gas to other customers at negotiated prices. The revenues from sales of natural gas and by-products are paid into the Natural Gas Price Adjustment Fund for subsequent distribution to producers, as required by the Natural Gas Price Act.

LETTER OF TRANSMITTAL
To His Honour the Honourable David Lam,
Lieutenant-Governor of the Province
of British Columbia

MAY IT PLEASE YOUR HONOUR:
I have the pleasure to submit the
Annual Report of the British Columbia Petroleum
Corporation for the year ended March 31, 1990.



JACK DAVIS,
Minister of Energy,
Mines & Petroleum Resources,

The year under review was the first full year of operation for the Corporation's newly-created marketing department. The establishment of this department has already resulted in a number of new sales which have contributed significantly to the year's results. Negotiations presently underway with prospective customers also augur well for the future.

Sales volumes increased substantially over the levels of the previous year, both in the domestic and export markets, and this helped establish a new record for gas transported through the Westcoast mainline. Unfortunately, the increase in sales volumes was not matched by an increase in prices. Instead, prices fell considerably, reflecting the acute competition in the markets served by the Corporation. Although sulphur revenues showed a decline from the previous year, revenues from the sale of liquids were up considerably due to higher throughput volumes and increased prices.

The year also marked significant progress towards establishing the Corporation as a fully functioning gas aggregator, operating on a netback pricing basis, unencumbered by large volumes of outstanding deficiency gas, dealing directly with its customers and managing the pipeline services to move its gas to market. As an illustration of this progress, since November, 1989, all export sales have been made in the Corporation's name. Another major step will be the successful conclusion of negotiations with BC Gas Inc. for gas deliveries after the agreements, now held by Westcoast, terminate on October 31, 1991.

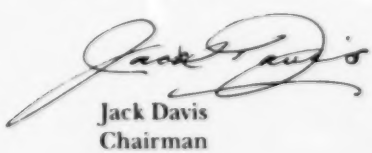
As a supply aggregator, the Corporation relies on companies in the producing sector to find and develop new supplies to meet its customers' long-term requirements. The environment in British Columbia in recent years has encouraged exploration, resulting in 217 well completions in the calendar year 1989, compared to 180 in 1988 and 135 in 1987. New gas purchase contracts entered into by the Corporation provided justification for Westcoast to build the recently completed Pesh pipeline and to place the Kotaneelee Field, in the Yukon, back on production. Also, in order to supplement internal assessments of gas supply, the Corporation has commissioned an independent reserves and deliverability study which will be completed later this year.

In 1986, the Government of British Columbia announced its intention to transfer the marketing functions of the Corporation to the private sector, in keeping with the Province's philosophy of deregulation of the petroleum industry in British Columbia. As reported in last year's annual report, a committee of the Board of Directors was appointed to examine and assess the merits of the proposals that were received with respect to the devolution of the marketing arm of the Corporation. Upon the recommendation of the Committee, the Government chose the proposal which was submitted on behalf of a number of B.C. natural gas producers under the name of Pacific Gas Marketing, now known as CanWest Gas Supply Inc.

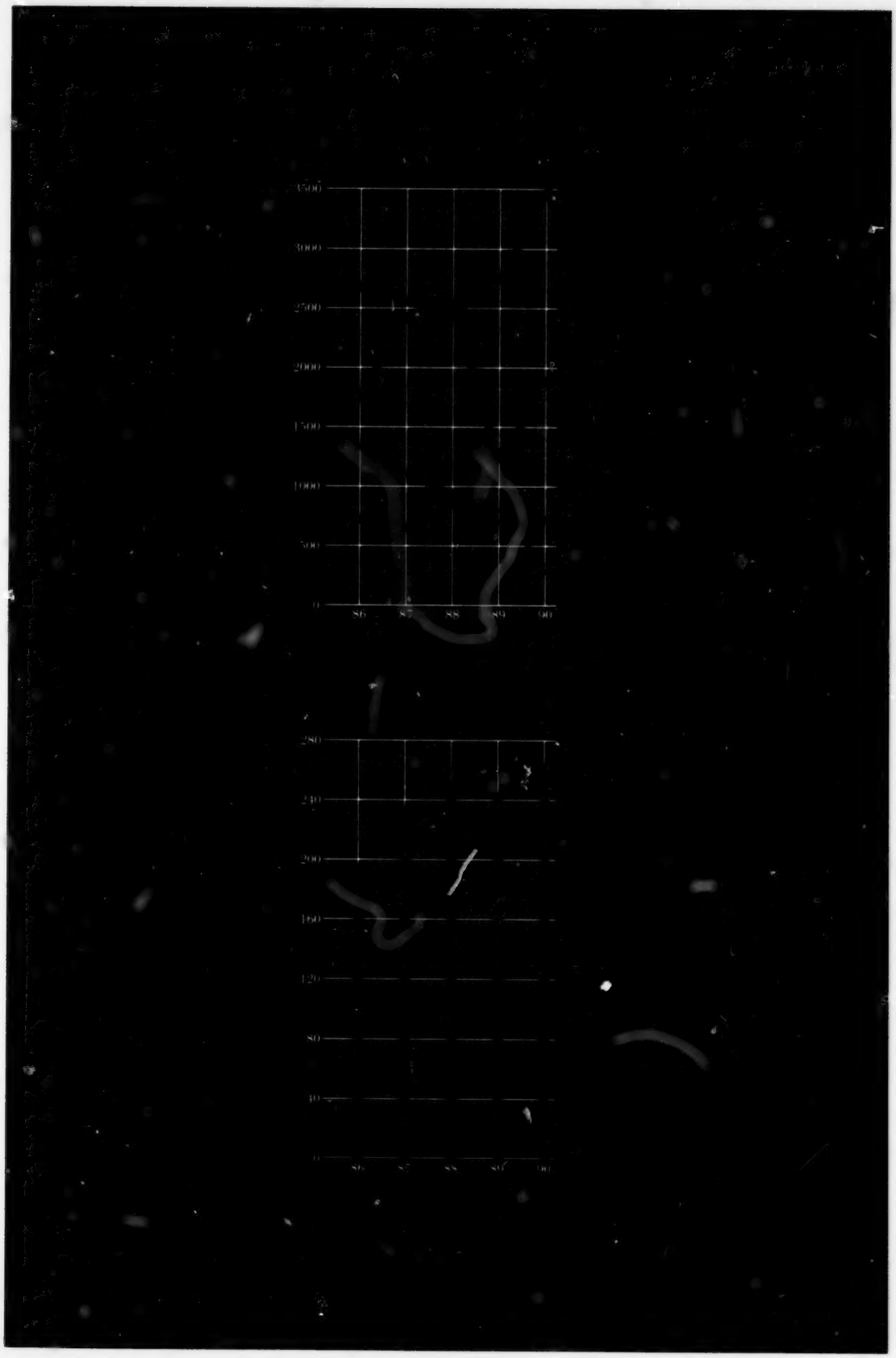
The Board is pleased to report that negotiations with CanWest are now complete. A formal agreement has been executed and the anticipated closing date for the devolution is July 31, 1990. The new marketing structure will benefit British Columbia by maximizing opportunities for B.C. natural gas sales.

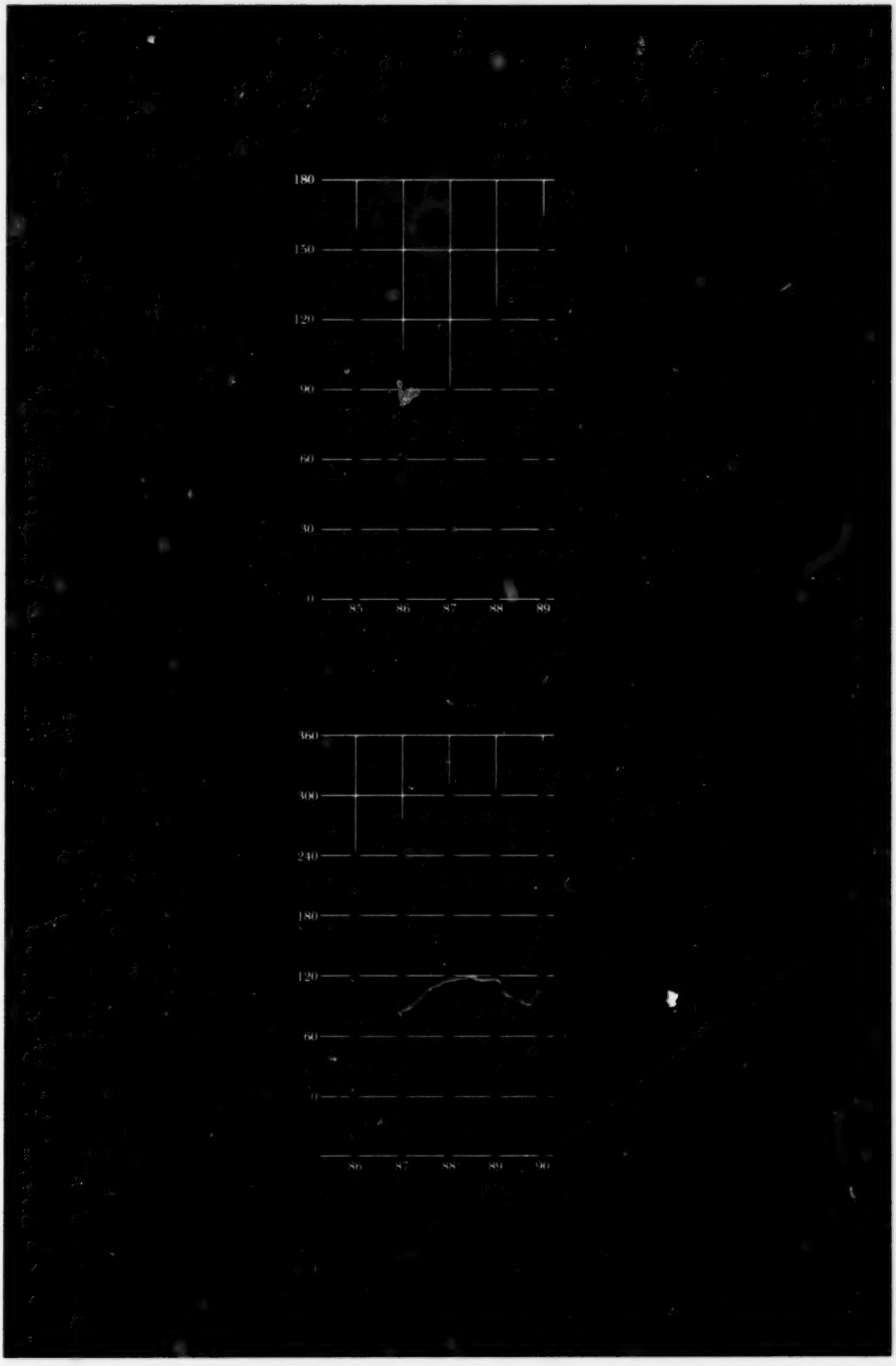
The Board wishes to thank all staff members for their dedication and perseverance which, amid the uncertainties of devolution and the challenges of a new role for the Corporation, made the accomplishments of the past year possible.

On behalf of the Board



Jack Davis
Chairman


3500
3000
2500
2000
1500
1000
500
0
280
240
200
160
120
80
40
0


180
150
120
90
60
30
0
85
86
87
88
89
360
300
240
180
120
60
0
86
87
88
89
90

Gas sales made a strong recovery during the year under review. The total sales volume of 6,701 million cubic metres represents a 31.1% increase over the previous year and the largest volume since 1986. Sales to the domestic market increased by 973 million cubic metres to 4,826 million cubic metres, a volume close to the record sales experienced in 1986. Direct sales by the Corporation amounted to 353 million cubic metres, with the rest resulting from increased deliveries, during the off-peak months, by BC Gas Inc. to B.C. Hydro's Burrard Thermal plant. While the latter sale increased total revenue, it also contributed to a reduction in the Producer Selling Price effective August 1, 1989.

Export sales were successfully reestablished after resolution of the dispute between Westcoast Energy Inc. and Northwest Pipeline Corporation in February, 1989, and the resulting improvement continued through the first three quarters of the fiscal year. For the year as a whole, export sales increased by 49.1%, or 617 million cubic metres, to 1,874 million cubic metres, a level that was close to the average of the previous five years. Efforts to develop long-term relationships with customers in the Pacific Northwest have met with significant success. In addition, the Corporation is attempting to diversify markets by establishing sales to California and the Northeastern U.S. At the same time, the spot market remains a large and extremely competitive segment of the Pacific Northwest market.

The increased sales volumes had a very positive effect on gas purchases, where, with a lower recovery of deficiency gas and a reduced MDVO, the average load factor for purchases under allocatable contracts was 54.6% for the gas contract year ended October 31, 1989. This was a significant improvement from 34.6% in the previous year and the average of 41.5% for the previous four years. Modest improvements in load factor are expected to continue.

The year under review also marked the end of the four year deficiency gas recovery program which commenced in 1985. At October 31, 1989, 13.9 million cubic metres of deficiency gas remained to be recovered. Since that date, the level of deficiency gas has been further reduced and at March 31, 1990, totalled 8.4 million cubic metres.

Sales of natural gas liquids increased by 8.5% to 267,795 cubic metres, due to increased production of pentanes plus at higher plant throughputs. Pentanes plus prices were higher than those of the previous year, the result of generally stronger crude oil prices, and propane prices showed a sharp increase during the heating season. The combined effect of increased volumes and prices generated a 51.0% improvement in liquids revenue.

Sulphur sales for the year under review increased by 16.4% to 351,954 tonnes, the highest level in the Corporation's history, but revenue from such sales decreased by 21.1%. The year, 1989, was an extremely difficult one for Canadian sulphur sellers due to the effects of a dispute between India and its phosphoric acid suppliers in Northern Africa, particularly Morocco. Although Northern Africa is not a major market for the Corporation's sulphur, from mid-1989 onward, severe competition between Canadian sellers depressed world sulphur prices. Although the dispute between India and Morocco was reportedly resolved late in 1989, prices have shown only a small improvement since then.

The Corporation established its own marketing department at the start of 1989 in order to take direct responsibility for the marketing of its natural gas supply. Initially, the Corporation used the export authorizations of Westcoast Energy Inc. to meet its export sales commitments. Following the expiration of these authorizations on October 31, 1989, the Corporation now contracts directly with its export customers under separate federal and provincial licences.

Throughout 1989 the Corporation was very active in pursuing long-term market opportunities in the Pacific Northwest and California. The Corporation's first long term export sale to a Pacific Northwest local distribution company commenced at the beginning of 1989 for a term of 15 years. The California market, to be accessed through a new interstate pipeline system in the early to mid-1990's, requires a very active participation on the part of the Corporation in the California regulatory process. Although the outcome of the competing pipeline projects is not certain, the marketing department has continued discussions with all major participants and these efforts will continue throughout 1990.

Domestically, the Corporation continues to be the major supplier to the local distribution companies in the Province and will maintain this position at least until the end of the 1990-91 contract year, when the largest of the domestic contracts expires. In addition, the Corporation was successful in implementing direct sales to domestic industrial customers and expects to expand its sales in this market during 1990.

In order to diversify its market area from the traditional British Columbia, Pacific Northwest and Rocky Mountain areas, the Corporation is continuing negotiations with a major purchaser whereby its gas would flow east from British Columbia. Although the eastern market is not expected to become a major outlet for the Corporation's gas supply, it represents an important diversification from the traditional market areas at netbacks that are, at least initially, as favorable as those currently attained from traditional markets.

During the past year, the Corporation has operated under an agreement with Westcoast Energy Marketing Limited whereby Westcoast provides marketing services to the Corporation. This agreement allowed the Corporation to become directly involved with the customers who had previously contracted with Westcoast. In addition, as a result of this agreement, Westcoast has been very instrumental and successful in encouraging its customers to contract with the Corporation.

NATURAL GAS PRICES

Under the Natural Gas Price Act, the Minister of Energy, Mines & Petroleum Resources is empowered to set a price, identified as the Producer Selling Price, at which the Corporation purchases natural gas under its contracts with producers, or acquires gas from a producer under an acquisition order. The Corporation may also, by order, establish a Price Adjustment for gas it acquires under a gas contract or an acquisition order. The Price Adjustment is calculated based on the balance of funds remaining in the Natural Gas Price Adjustment Fund after certain costs have been paid as set out in the Natural Gas Price Act. The total of the Producer Selling Price and the Price Adjustment equals the Regulated Selling Price.

The prices paid for gas purchased by the Corporation during the year are shown below:

	General Producer Selling Price $/10³m³	General Price Adjustment $/10³m³
1989		
April - July	48.4510	1.8342
August - December	43.2598	1.8342
1990		
January - March	47.0700	1.6800

Revenues received by the Corporation on the resale of natural gas and by-products are paid into the Natural Gas Price Adjustment Fund. Payments out of the fund comprise the Corporation's operating expenses and the Producer Selling Prices and Price Adjustments. In this manner, after the payment of the Corporation's cost of service, all revenues are flowed back to the producers.

The Petroleum Corporation Fund is also administered by the Corporation. This fund reflects transactions that occurred prior to July 1, 1985, and those transactions which are not governed by the Natural Gas Price Act.

Total revenues credited to the Natural Gas Price Adjustment Fund in the year ended March 31, 1990, amounted to $353,473,694 compared with $318,049,475 a year earlier. Natural gas sales increased to $318,602,368 (1988/89: $286,563,803) which reflects the increase in the volume of gas sold in the domestic and export markets, offset by the erosion in the sale prices which the Corporation experienced during the year.

Sulphur revenues amounted to $9,105,948 during the current year, compared to $11,537,065 in the previous year. Although the tonnage of sulphur sold increased substantially over 1989, the decline in world sulphur prices more than offset the increase in sales volume, so resulting in the reduction in revenue of $2,431,117.

Revenues from the sales of natural gas liquids increased 51.0% as a result of significantly higher prices obtained during the year. Revenues amounted to $23,219,722 compared with $15,374,217 in the previous year.

The increase in the Corporation's administrative and general expenses reflects the one-time costs regarding the transfer of the marketing functions of the Corporation to CanWest Gas Supply Inc., to which reference has been made in the Report of the Directors.

Revenues credited to the Petroleum Corporation Fund during the year were marginally lower, at $5,708,902, compared with $5,829,579 for the previous year. The main source of revenue of the fund is interest earned from the investment of the Corporation's surplus funds. Although the average balance of the funds invested was lower than that of the previous year, the Corporation benefitted from the higher interest rates that have prevailed in recent months.

In December, 1989, the Corporation received repayment of the amount of credit extended to Ocelot Chemicals Inc. by B.C. Petroleum (Kitimat) Ltd. Subsequent to that date, the Corporation repaid the deferred liability owed to Pacific Northern Gas Ltd.

During 1989, the Corporation intervened in two hearings before the National Energy Board regarding, respectively, certain toll design and tariff matters and the cost of service of Westcoast Energy Inc. By its decisions, the Board established, inter alia, procedures for the allocation of capacity on the Westcoast system, queuing procedures and renewal rights, in addition to new tolls for 1990.

AUDITORS' REPORT

To the Lieutenant-Governor in Council, Province of British Columbia.

We have examined the balance sheet of the Natural Gas Price Adjustment Fund as at March 31, 1990, and the statement of revenue, expenditure and fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at March 31, 1990, and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Wolrige Mahon

WOLRIGE MAHON
Chartered Accountants
Vancouver, B.C. May 18, 1990

BALANCE SHEET
March 31, 1990

ASSETS	1990	1989
CURRENT ASSETS		
Cash	$ 21,274,683	$ 36,941,499
Accounts receivable	36,826,729	44,155,191
Prepaid gas (Note 3)	175,303	5,373,533
Prepaid expenses	5,394	4,519
	$ 58,282,109	$ 86,474,742
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued charges	$ 31,208,565	$ 49,218,336
LIABILITY FOR FUTURE GAS SUPPLY (Note 4)	1,770,816	—
AMOUNT AVAILABLE FOR DISTRIBUTION (Note 2)	25,302,728	37,256,406
	$ 58,282,109	$ 86,474,742

Approved by the Directors

Director

Director

STATEMENT OF REVENUE, EXPENDITURE & FUND BALANCE

Year Ended March 31, 1990

	1990	1989
REVENUE		
Sales from natural gas, natural gas liquids and sulphur (Note 2)	$ 350,928,399	$ 314,619,071
Interest	2,545,295	3,430,404
	353,473,694	318,049,475
EXPENDITURE		
Natural gas purchases	325,900,415	298,798,734
Price adjustments	16,294,722	16,681,101
Payments for natural gas liquids	19,512,554	11,095,442
Administrative and general	3,719,681	2,126,614
	365,427,372	328,701,891
EXCESS OF EXPENDITURE OVER REVENUE	11,953,678	10,652,416
FUND BALANCE AT BEGINNING OF YEAR	37,256,406	47,908,822
FUND BALANCE AT END OF YEAR	$ 25,302,728	$ 37,256,406

NOTES TO THE FINANCIAL STATEMENTS
March 31, 1990

NOTE 1 - STATUTORY REQUIREMENTS
The Natural Gas Price Adjustment Fund is established by the Natural Gas Price Act, 1985.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES
GAS SALES

Under the terms of an agreement between Westcoast Energy Inc. and British Columbia Petroleum Corporation, effective November 1, 1973, the Corporation sells natural gas to Westcoast at a price equal to the gross revenue received by that Company on the resale thereof less that Company's cost of service, in respect of gathering, processing and transporting the gas, for the month in which such resale takes place. In addition, the Corporation sells natural gas to other customers at negotiated prices. The revenues from sales of natural gas and by-products are paid into the Natural Gas Price Adjustment Fund for subsequent distribution to producers, as required by the Natural Gas Price Act.

CHANGES IN FINANCIAL POSITION

A statement of changes in financial position is not provided as disclosure of such information in these financial statements is considered to be adequate.

NOTE 3 - PREPAID GAS
Under its current gas purchase contracts with producers, the Corporation is obligated to purchase and take delivery of, or pay for, a specified minimum annual volume of gas. In the 1986 contract year, the Corporation was unable to take delivery of the minimum volume of gas and, therefore, is liable to pay for the resulting shortfall (deficiency gas). The Corporation is entitled to take delivery of deficiency gas within a period of ten years from the date incurred, with an adjustment for any increase in the price prevailing when such gas is delivered.

Prepaid gas outstanding at March 31, 1990, has been calculated at the lower of cost or current value.

NOTE 4 - LIABILITY FOR FUTURE GAS SUPPLY
Liability for future gas supply represents a payment for deficiency gas incurred by a distributor in 1989. Such deficiency volumes may be recovered from the Corporation within five years from the date incurred, with an adjustment for any increase in the price prevailing when such gas is delivered.

NOTE 5 - COMPARATIVE FIGURES
Certain comparative figures have been reclassified to conform to the 1990 presentation.

AUDITORS' REPORT

To the Lieutenant-Governor in Council, Province of British Columbia:

We have examined the balance sheet of the Petroleum Corporation Fund as at March 31, 1990, and the statements of revenue, expenditure and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at March 31, 1990, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Wolrige Mahon

WOLRIGE MAHON
Chartered Accountants
Vancouver, B.C., May 18, 1990

PETROLEUM CORPORATION FUND

BALANCE SHEET
March 31, 1990

ASSETS	1990	1989
CURRENT ASSETS		
Cash	$ 25,473,020	$ 5,752,910
Accounts receivable	496,453	12,078,881
	25,969,473	17,831,791
PREPAID GAS (NOTE 3)	183,404	2,358,692
PROPERTY ACCOUNT (NOTE 4)	99,915	60,304
OTHER ASSETS		
Deferred receivable	—	36,015,564
	$ 26,252,792	$ 56,266,351
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued charges	$ 62,015	$ 83,585
Deferred liability due within one year	—	1,000,000
	62,015	1,083,585
DEFERRED LIABILITY	—	1,083,333
SURPLUS	26,190,777	54,099,433
	$ 26,252,792	$ 56,266,351

COMMITMENTS (NOTE 6)

Approved by the Directors

Director

Director

PETROLEUM CORPORATION FUND

STATEMENT OF REVENUE, EXPENDITURE AND SURPLUS
Year Ended March 31, 1990

	1990	1989
REVENUE		
Interest (Note 5)	$ 5,658,616	$ 6,447,213
Miscellaneous income	46,740	84,814
Gain (loss) on prepaid gas (Note 3)	(8,162)	(702,448)
Gain on disposal of assets	11,708	—
	5,708,902	5,829,579
EXPENDITURE		
Administrative and general	56,653	143,538
NET INCOME	5,652,249	5,686,041
SURPLUS AT BEGINNING OF YEAR	54,099,433	93,413,392
	59,751,682	99,099,433
DEDUCT: TRANSFERS TO PROVINCIAL TREASURY	33,560,905	45,000,000
SURPLUS AT END OF YEAR	$ 26,190,777	$ 54,099,433

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 1990

	1990	1989
OPERATING ACTIVITIES		
Operations		
Net income	$ 5,652,249	$ 5,686,041
Add (deduct) items not involving a flow of cash:		
- Depreciation and amortization	46,740	83,264
- Gain on disposal of fixed assets	(11,708)	—
Cash from operations	5,687,281	5,769,305
Recovery of prepaid gas	2,175,288	30,766,862
Transfers to Provincial Treasury	(33,560,905)	(45,000,000)
	(25,698,336)	(8,463,833)
FINANCING ACTIVITIES		
Decrease in deferred liability	(2,083,333)	(1,000,000)
INVESTING ACTIVITIES		
Property additions	(88,856)	(19,972)
Proceeds from sale of fixed assets	14,214	—
Decrease in deferred receivable	36,015,563	17,225,233
	35,940,921	17,205,261
CHANGES IN NON-CASH WORKING CAPITAL		
Accounts receivable	11,582,428	(3,330,665)
Accounts payable and accrued charges	(21,570)	(5,801,717)
	11,560,858	(9,132,382)
INCREASE (DECREASE) IN CASH POSITION DURING THE YEAR	19,720,110	(1,390,954)
CASH POSITION AT BEGINNING OF YEAR	5,752,910	7,143,864
CASH POSITION AT END OF YEAR	$ 25,473,020	$ 5,752,910

NOTES TO THE FINANCIAL STATEMENTS
March 31, 1990

NOTE 1 - STATUTORY REQUIREMENTS

The Petroleum Corporation Fund is established by the Petroleum Corporation Act, 1973.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The Petroleum Corporation Fund financial statements include the accounts of the Corporation's subsidiary, B.C. Petroleum (Kitimat) Ltd.

DEPRECIATION

Furniture, equipment, automobiles and leasehold improvements are recorded at cost and depreciation is provided at rates considered adequate to amortize the cost over the service lives of the assets. Depreciation is computed on a straight-line basis.

NOTE 3 - PREPAID GAS

Under its current gas purchase contracts with producers, the Corporation is obligated to purchase and take delivery of, or pay for, a specified minimum annual volume of gas. In the 1982 contract year, the Corporation was unable to take delivery of the minimum volume of gas and, therefore, is liable to pay for the resulting shortfall (deficiency gas). The Corporation is entitled to take delivery of deficiency gas within a period of ten years from the date incurred, with an adjustment for any increase in the price prevailing when such gas is delivered.

Prepaid gas outstanding at March 31, 1990, has been calculated at the lower of cost or current value.

NOTE 4 - PROPERTY ACCOUNT

	Cost	Accumulated Depreciation & Amortization	1990 Net Book Value	1989 Net Book Value
FURNITURE	$ 453,444	$ 405,749	$ 47,695	$ 26,624
AUTOMOBILES	77,052	25,626	51,426	26,106
LEASEHOLD IMPROVEMENTS	251,938	251,144	794	7,574
	$ 782,434	$ 682,519	$ 99,915	$ 60,304

NOTES TO THE FINANCIAL STATEMENTS
March 31, 1990

NOTE 5 - INTEREST

	1990	1989
INTEREST INCOME		
PROVINCE OF BRITISH COLUMBIA	$ 2,194,704	$ 1,692,304
OTHER	3,463,912	4,754,909
	$ 5,658,616	$ 6,447,213

NOTE 6 - COMMITMENTS

The Corporation has a commitment under an agreement for the lease of office premises extending to September 30, 1994. The aggregate rental payable under the lease amounted to approximately $1,226,500 at March 31, 1990.

NOTE 7 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 1990 presentation.

FIVE YEAR SUMMARY

Year Ended March 31

	1990	1989	1988	1987	1986
VOLUMES					
DOMESTIC SALES					
(10^3m^3)	4,826,321	3,853,605	3,822,342	4,146,107	4,948,419
(Mcf)	170,373,786	136,035,963	134,932,341	146,361,570	174,683,961
EXPORT SALES					
(10^3m^3)	1,874,300	1,256,892	2,528,064	2,495,983	1,771,653
(Mcf)	66,164,596	44,369,497	89,243,085	88,110,615	62,541,041
SULPHUR SALES					
TONNES SHIPPED	351,954	302,398	308,645	276,690	239,521
NATURAL GAS LIQUIDS					
(m^3)	267,795	246,777	255,985	231,127	191,365
AVERAGE SELLING PRICE OF GAS					
DOMESTIC					
$ per 10^3m^3	75.3643	86.1510	82.7464	89.8580	99.6192
$ per Mcf	2.1349	2.4405	2.3440	2.5455	2.8220
EXPORT					
$ per 10^3m^3	64.9265	101.0383	94.8111	86.8049	150.4764
$ per Mcf	1.8392	2.8622	2.6858	2.4590	4.2627
AVERAGE REGULATED SELLING PRICE					
$ per 10^3m^3	47.0666	56.6829	48.4609	55.5597	70.4299
$ per Mcf	1.3600	1.6379	1.4003	1.6054	2.0351

CORPORATE INFORMATION

DIRECTORS:

Honourable Jack Davis
Minister of Energy
Mines & Petroleum Resources
Chairman of the Board

John. P. Crone
Businessman
Victoria, B.C

Larry E. Fisher
Businessman
Surrey, B.C.

Hon. Audrey L. Moore
Mayor of Castlegar, B.C.

Donald W. Rawlyk
President

SENIOR PERSONNEL:

Donald W. Rawlyk
President

Gordon S. Thomas
Vice President, Finance

Brian J. Hodgins
Vice President, Marketing

J. Brian Williston
Vice President,
Gas Supply

Bruna M. Martinuzzi
Corporate Secretary &
Executive Assistant to the President

Gordon A. Pearson
Comptroller

CORPORATE OFFICES:

1199 West Hastings Street
6th Floor
Vancouver, B.C. V6E 3T5
Telephone (604) 661-3300
Fax (604) 661-3324
Telex 04-54530

LEGAL ADVISORS:

Davis & Company
2800 Park Place
666 Burrard Street
Vancouver, B.C. V6C 2Z7

AUDITORS:

Wolrige Mahon
9th Floor
400 Burrard Street
Vancouver, B.C. V6C 3B7